

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Contents

| | <u>Page</u> |
|--|-----------------|
| Officials | 1 |
| Independent Auditor's Report | 2-3 |
| Management's Discussion and Analysis (MD&A) | 4-13 |
| Basic Financial Statements: | <u>Exhibit</u> |
| Government-wide Financial Statements: | |
| Statement of Net Assets | A 14 |
| Statement of Activities | B 15 |
| Governmental Fund Financial Statements: | |
| Balance Sheet | C 16 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | D 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E 18 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities | F 19 |
| Propriety Fund Financial Statements: | |
| Statement of Net Assets | G 20 |
| Statement of Revenues, Expenses and Changes in Net Assets | H 21 |
| Statement of Cash Flows | I 22 |
| Fiduciary Fund Financial Statements: | |
| Statement of Changes in Fiduciary Net Assets | J 23 |
| Notes to Financial Statements | 24-34 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund | 35 |
| Notes to Required Supplementary Information - Budgetary Reporting | 36 |
| Other Supplementary Information: | <u>Schedule</u> |
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet | 1 37 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 2 38 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 39 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types | 4 40 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 41-42 |
| Schedule of Findings | 43-46 |

Moulton-Udell Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|----------------|---------------------|
| Board of Education (Before September 2005 Election) | | |
| Marlan Korthaus | President | 2005 |
| Rodger Kaster | Vice-President | 2007 |
| Randy Welch | Board Member | 2005 |
| Dan Jay | Board Member | 2006 |
| Jerilyn Inman | Board Member | 2006 |

Board of Education
(After September 2005 Election)

| | | |
|-----------------|----------------|------|
| Marlan Korthaus | President | 2008 |
| Rodger Kaster | Vice-President | 2007 |
| Dan Jay | Board Member | 2006 |
| Jerilyn Inman | Board Member | 2006 |
| Travis Harris | Board Member | 2008 |

School Officials

| | | |
|----------------|---|------|
| Rich Turner | Superintendent | 2006 |
| Marilyn Wood | District Secretary/Treasurer/ Business Manager | 2006 |
| Richard Gaumer | Attorney | 2006 |

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Moulton-Udell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Moulton-Udell Community School District, Moulton-Udell, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

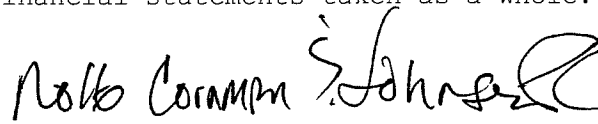
In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2006 on our consideration of Moulton-Udell Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moulton-Udell Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ending June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Nolte Cornman & Johnson", with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

August 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Moulton-Udell Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,260,617 in fiscal 2005 to \$2,246,722 in fiscal 2006, while General Fund expenditures increased from \$2,179,246 in fiscal 2005 to \$2,228,224 in fiscal 2006. In spite of the decrease in revenues and increase in expenditures, the revenues still exceeded expenditures. This allowed the District's General Fund balance to increase from \$416,789 in fiscal 2005 to \$435,287 in fiscal 2006, a 4.4% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state and federal sources in fiscal 2006. The increase in expenditures was due primarily to an increase in transportation and instructional support services costs in the support services functional area.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Moulton-Udell Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Moulton-Udell Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Moulton-Udell Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Moulton-Udell Community School District Annual Financial Report

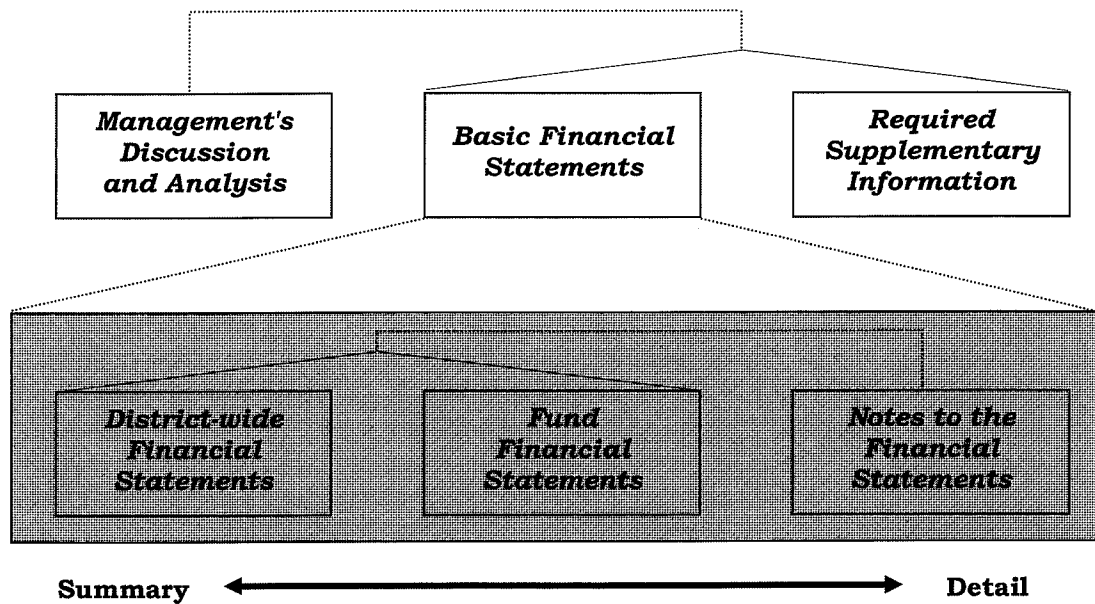


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| Figure A-2 Major Features of the Government-Wide and Fund Financial Statements | | | | |
|---|--|--|--|---|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses, e.g., food service | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust fund.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|--|----------------------------|-----------|-----------------------------|--------|--------------------------|-----------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| Current and other assets | \$ 1,849,604 | 1,969,147 | 9,565 | 11,069 | 1,859,169 | 1,980,216 | -6.11% |
| Capital assets | 768,839 | 956,106 | 11,042 | 13,561 | 779,881 | 969,667 | -19.57% |
| Total assets | 2,618,443 | 2,925,253 | 20,607 | 24,630 | 2,639,050 | 2,949,883 | -10.54% |
| Long-term obligations | 13,857 | 26,649 | 0 | 0 | 13,857 | 26,649 | -48.00% |
| Other liabilities | 1,104,769 | 1,382,531 | 721 | 0 | 1,105,490 | 1,382,531 | -20.04% |
| Total liabilities | 1,118,626 | 1,409,180 | 721 | 0 | 1,119,347 | 1,409,180 | -20.57% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 768,839 | 1,014,995 | 11,042 | 13,561 | 779,881 | 1,028,556 | -24.18% |
| Restricted | 250,252 | 38,497 | 0 | 0 | 250,252 | 38,497 | 550.06% |
| Unrestricted | 480,726 | 462,581 | 8,844 | 11,069 | 489,570 | 473,650 | 3.36% |
| Total net assets | \$ 1,499,817 | 1,516,073 | 19,886 | 24,630 | 1,519,703 | 1,540,703 | -1.36% |

The District's combined net assets decreased by 1.36%, or \$21,000, compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's

restricted net assets increased \$211,755, or 550.06% over the prior year. The increase was primarily due to a reclassification of the Capital Projects Fund balance from invested in capital assets, net of related debt to restricted net assets.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$15,920, or 3.36%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

| Figure A-4 Changes of Net Assets | | | | | | | | |
|---|----------------------------|-----------|-----------------------------|---------|--------------------------|-----------|-----------------|--|
| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 | |
| Revenues: | | | | | | | | |
| Program revenues: | | | | | | | | |
| Charges for services | \$ 331,683 | 248,875 | 35,860 | 46,593 | 367,543 | 295,468 | 24.39% | |
| Operating grants and contributions and restricted interest | 328,065 | 324,191 | 54,465 | 47,803 | 382,530 | 371,994 | 2.83% | |
| Capital grants and contributions and restricted interest | 11,194 | 0 | 0 | 0 | 11,194 | 0 | 100.00% | |
| General revenues: | | | | | | | | |
| Property tax | 793,961 | 705,737 | 0 | 0 | 793,961 | 705,737 | 12.50% | |
| Local option sales and services tax | 133,373 | 120,714 | 0 | 0 | 133,373 | 120,714 | 10.49% | |
| Unrestricted state grants | 943,981 | 1,077,284 | 0 | 0 | 943,981 | 1,077,284 | -12.37% | |
| Other | 31,535 | 23,511 | 112 | 59 | 31,647 | 23,570 | 34.27% | |
| Total revenues | 2,573,792 | 2,500,312 | 90,437 | 94,455 | 2,664,229 | 2,594,767 | 2.68% | |
| Program expenses: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Instructional | 1,599,625 | 1,559,371 | 0 | 0 | 1,599,625 | 1,559,371 | 2.58% | |
| Support services | 827,179 | 687,900 | 0 | 0 | 827,179 | 687,900 | 20.25% | |
| Non-instructional programs | 0 | 260 | 95,181 | 99,558 | 95,181 | 99,818 | -4.65% | |
| Other expenses | 163,244 | 116,891 | 0 | 0 | 163,244 | 116,891 | 39.65% | |
| Total expenses | 2,590,048 | 2,364,422 | 95,181 | 99,558 | 2,685,229 | 2,463,980 | 8.98% | |
| Changes in net assets | (16,256) | 135,890 | (4,744) | (5,103) | (21,000) | 130,787 | -116.06% | |
| Beginning net assets | 1,516,073 | 1,380,183 | 24,630 | 29,733 | 1,540,703 | 1,409,916 | 9.28% | |
| Ending net assets | \$ 1,499,817 | 1,516,073 | 19,886 | 24,630 | 1,519,703 | 1,540,703 | -1.36% | |

In fiscal 2006, local tax and unrestricted state grants account for 72.7% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$2.66 million of which \$2.57 million was for governmental activities and \$.09 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.68% increase in revenues and a 8.98% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$2,573,792 and expenses were \$2,590,048. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | Net Cost of Services |
|------------------|---------------------------|-------------------------|
| Instruction | \$ 1,599,625 | 1,016,497 |
| Support services | 827,179 | 826,842 |
| Other expenses | 163,244 | 75,767 |
| Totals | <u>\$ 2,590,048</u> | <u>1,919,106</u> |

- The cost financed by users of the District's programs was \$331,863.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$328,065.
- The net cost of governmental activities was financed with \$793,961 in property tax, \$133,373 in local option sales and services tax, \$943,981 in unrestricted state grants and \$26,228 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$90,437 and expenses were \$95,181. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Moulton-Udell Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$699,042, above last year's ending fund balances of \$540,824. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the District receiving more local option sales and services tax monies and an increase in state revenues.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Overall total expenditures increased, however the expenditures in special and other expenditures actually decreased. An increase in local tax and tuition revenue was not enough to offset the decrease in federal and state revenues. Total revenues decreased \$13,895, which was a decrease of less than 1%.

-
- The Capital Projects Fund balance increased from \$85,538 in fiscal 2005 to \$185,516 in fiscal 2006. Revenues increased 15.3% or \$18,426 from the prior year. This increase was the result of the District receiving more local option sales and services tax monies. Expenditures remained constantly the same compared to the prior year.
 - The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit \$17,187 in fiscal 2005 to a positive balance of \$3,027 in fiscal 2006. This increase was partially due to the District levying property taxes and also receiving a Fire and Safety Grant.
 - The Management Levy Fund balance increased from \$4,900 to \$7,993 due to an increase in property tax levy during the current year.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$24,630 at June 30, 2005 to \$19,886 at June 30, 2006, representing a decrease of 19.3%. For fiscal 2006, the District received fewer monies from charges for services and state sources.

BUDGETARY HIGHLIGHTS

Over the course of the year, Moulton-Udell Community School District amended its annual budget one time to reflect additional expenditures associated with the non-instructional program area.

The District's revenues were \$82,822 less than budgeted revenues, a variance of 3.02%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$779,881, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 24.34% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$287,687.

The original cost of the District's capital assets was \$2,051,988. Governmental funds account for \$2,022,507 with the remainder of 29,481 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$67,748 at June 30, 2006, compared to \$223,867 reported at June 30, 2005. This decrease resulted from the depreciation expense incurred during the year.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|-------------------------|-------------------------|---------|--------------------------|--------|-----------------------|---------|--------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| | | | | | | | |
| Land | \$ 2,000 | 2,000 | 0 | 0 | 2,000 | 2,000 | 0.00% |
| Buildings | 699,243 | 743,800 | 0 | 0 | 699,243 | 743,800 | -6.37% |
| Land improvements | 10,890 | 0 | 0 | 0 | 10,890 | 0 | 100.00% |
| Machinery and equipment | 56,706 | 210,306 | 11,042 | 13,561 | 67,748 | 223,867 | -230.44% |
| Total | \$ 768,839 | 956,106 | 11,042 | 13,561 | 779,881 | 969,667 | -24.34% |

Long-Term Debt

At June 30, 2006, the District had \$13,857 in capital lease obligations outstanding. This represents a decrease of 48% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements. These capital lease obligations are payable from the Capital Projects Fund.

Figure A-7
Outstanding Long-Term Obligations

| | Total School District | | Total Change |
|---------------------------|-----------------------|--------|--------------|
| | 2006 | 2005 | |
| Capital lease obligations | \$ 13,857 | 26,649 | -48.0% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment for past five years, the District expects this trend to continue the next few years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marilyn Wood, District Secretary, Moulton-Udell Community School District, 305 East 8th, Moulton, Iowa, 52572.

BASIC FINANCIAL STATEMENTS

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| Assets | | | |
| Cash and pooled investments: | | | |
| ISCAP (Note 5) | \$ 323,317 | 0 | 323,317 |
| Other | 624,622 | 8,223 | 632,845 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 25,530 | 0 | 25,530 |
| Succeeding year | 751,677 | 0 | 751,677 |
| Income surtax | 45,792 | 0 | 45,792 |
| Accounts | 60 | 0 | 60 |
| Accrued interest - ISCAP (Note 5) | 3,244 | 0 | 3,244 |
| Due from other governments | 75,362 | 0 | 75,362 |
| Inventories | 0 | 1,342 | 1,342 |
| Capital assets, net of accumulated depreciation (Note 6) | 768,839 | 11,042 | 779,881 |
| Total Assets | 2,618,443 | 20,607 | 2,639,050 |
| Liabilities | | | |
| Accounts payable | 9,998 | 0 | 9,998 |
| Salaries and benefits payable | 15,041 | 0 | 15,041 |
| ISCAP warrants payable (Note 5) | 323,000 | 0 | 323,000 |
| ISCAP accrued interest payable (Note 5) | 2,810 | 0 | 2,810 |
| ISCAP unamortized premium | 2,243 | 0 | 2,243 |
| Deferred revenue: | | | |
| Succeeding year property tax | 751,677 | 0 | 751,677 |
| Unearned revenue | 0 | 721 | 721 |
| Long-term liabilities (Note 7): | | | |
| Portion due within one year: | | | |
| Capitalized lease obligations | 12,792 | 0 | 12,792 |
| Portion due after one year: | | | |
| Capitalized lease obligations | 1,065 | 0 | 1,065 |
| Total Liabilities | 1,118,626 | 721 | 1,119,347 |
| Net Assets | | | |
| Investment in capital assets, net of related debt | 768,839 | 11,042 | 779,881 |
| Restricted for: | | | |
| Salary improvement program | 353 | 0 | 353 |
| Capital projects | 171,659 | 0 | 171,659 |
| Physical plant and equipment levy | 3,027 | 0 | 3,027 |
| Management levy | 7,993 | 0 | 7,993 |
| Other special revenue purposes | 67,220 | 0 | 67,220 |
| Unrestricted | 480,726 | 8,844 | 489,570 |
| Total Net Assets | \$ 1,499,817 | 19,886 | 1,519,703 |

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|--|---------------------|-------------------------|--|--|--|-----------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business-Type Activities | |
| Functions/Programs | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular instruction | \$ 1,020,230 | 157,585 | 237,651 | 0 | (624,994) | 0 | (624,994) |
| Special instruction | 299,365 | 47,517 | 14,131 | 0 | (237,717) | 0 | (237,717) |
| Other instruction | 280,030 | 126,244 | 0 | 0 | (153,786) | 0 | (153,786) |
| | <u>1,599,625</u> | <u>331,346</u> | <u>251,782</u> | <u>0</u> | <u>(1,016,497)</u> | <u>0</u> | <u>(1,016,497)</u> |
| Support services: | | | | | | | |
| Student services | 26,202 | 0 | 0 | 0 | (26,202) | 0 | (26,202) |
| Instructional staff services | 101,915 | 0 | 0 | 0 | (101,915) | 0 | (101,915) |
| Administration services | 329,152 | 0 | 0 | 0 | (329,152) | 0 | (329,152) |
| Operation and maintenance of plant services | 236,126 | 0 | 0 | 0 | (236,126) | 0 | (236,126) |
| Transportation services | 133,784 | 337 | 0 | 0 | (133,447) | 0 | (133,447) |
| | <u>827,179</u> | <u>337</u> | <u>0</u> | <u>0</u> | <u>(826,842)</u> | <u>0</u> | <u>(826,842)</u> |
| Other expenditures: | | | | | | | |
| Facilities and acquisitions | 40,063 | 0 | 0 | 11,194 | (28,869) | 0 | (28,869) |
| Long-term debt interest | 384 | 0 | 0 | 0 | (384) | 0 | (384) |
| AEA flowthrough | 76,283 | 0 | 76,283 | 0 | 0 | 0 | 0 |
| Depreciation(unallocated)* | 46,514 | 0 | 0 | 0 | (46,514) | 0 | (46,514) |
| | <u>163,244</u> | <u>0</u> | <u>76,283</u> | <u>11,194</u> | <u>(75,767)</u> | <u>0</u> | <u>(75,767)</u> |
| Total governmental activities | <u>2,590,048</u> | <u>331,683</u> | <u>328,065</u> | <u>11,194</u> | <u>(1,919,106)</u> | <u>0</u> | <u>(1,919,106)</u> |
| Business-Type activities: | | | | | | | |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 95,181 | 35,860 | 54,465 | 0 | 0 | (4,856) | (4,856) |
| Total business-type activities | <u>95,181</u> | <u>35,860</u> | <u>54,465</u> | <u>0</u> | <u>0</u> | <u>(4,856)</u> | <u>(4,856)</u> |
| Total | <u>\$ 2,685,229</u> | <u>367,543</u> | <u>382,530</u> | <u>11,194</u> | <u>(1,919,106)</u> | <u>(4,856)</u> | <u>(1,923,962)</u> |
| General Revenues and Transfers: | | | | | | | |
| Local tax for: | | | | | | | |
| General purposes | | | | | \$ 771,355 | 0 | 771,355 |
| Capital outlay | | | | | 22,606 | 0 | 22,606 |
| Local option sales and services tax | | | | | 133,373 | 0 | 133,373 |
| Unrestricted state grants | | | | | 943,981 | 0 | 943,981 |
| Unrestricted investment earnings | | | | | 26,228 | 112 | 26,340 |
| Transfer in | | | | | 5,307 | 0 | 5,307 |
| Total general revenues | | | | | <u>1,902,850</u> | <u>112</u> | <u>1,902,962</u> |
| Changes in net assets | | | | | (16,256) | (4,744) | (21,000) |
| Net assets beginning of year | | | | | <u>1,516,073</u> | <u>24,630</u> | <u>1,540,703</u> |
| Net assets end of year | | | | | <u>\$ 1,499,817</u> | <u>19,886</u> | <u>1,519,703</u> |

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

| | General | Capital Projects | Nonmajor Special Revenue | Total |
|--|---------------------|---------------------|--------------------------------|------------------|
| Assets | | | | |
| Cash and pooled investments: | | | | |
| ISCAP (Note 5) | \$ 323,317 | 0 | 0 | 323,317 |
| Other | 347,752 | 159,653 | 117,217 | 624,622 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 23,382 | 0 | 2,148 | 25,530 |
| Succeeding year | 660,543 | 0 | 91,134 | 751,677 |
| Income surtax | 45,792 | 0 | 0 | 45,792 |
| Interfund | 46,296 | 0 | 1,098 | 47,394 |
| Accounts | 20 | 0 | 40 | 60 |
| Accrued interest - ISCAP (Note 5) | 3,244 | 0 | 0 | 3,244 |
| Due from other governments | 44,221 | 29,157 | 1,984 | 75,362 |
| Total Assets | \$ 1,494,567 | 188,810 | 213,621 | 1,896,998 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Interfund payable | \$ 0 | 3,294 | 44,100 | 47,394 |
| Accounts payable | 9,851 | 0 | 147 | 9,998 |
| Salaries and benefits payable | 15,041 | 0 | 0 | 15,041 |
| ISCAP warrants payable (Note 5) | 323,000 | 0 | 0 | 323,000 |
| ISCAP accrued interest payable (Note 5) | 2,810 | 0 | 0 | 2,810 |
| ISCAP unamortized premium | 2,243 | 0 | 0 | 2,243 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 660,543 | 0 | 91,134 | 751,677 |
| Income surtax | 45,792 | 0 | 0 | 45,792 |
| Total liabilities | 1,059,280 | 3,294 | 135,381 | 1,197,955 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Salary improvement program | 353 | 0 | 0 | 353 |
| Unreserved | 434,934 | 185,516 | 78,240 | 698,690 |
| Total fund balances | 435,287 | 185,516 | 78,240 | 699,043 |
| Total Liabilities and Fund Balances | \$ 1,494,567 | 188,810 | 213,621 | 1,896,998 |

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

| | |
|---|----------------------------|
| Total fund balances of governmental funds (page 16) | \$ 699,043 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 768,839 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current period. | 45,792 |
| Long-term liabilities, including general lease obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(13,857)</u> |
| Net assets of governmental activities (page 14) | <u><u>\$ 1,499,817</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

| | General | Capital Projects | Other Nonmajor Governmental Funds | Total |
|---|------------|---------------------|--|-----------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 732,060 | 133,373 | 61,901 | 927,334 |
| Tuition | 205,102 | 0 | 0 | 205,102 |
| Other | 43,086 | 321 | 109,402 | 152,809 |
| State sources | 1,139,218 | 5,503 | 69 | 1,144,790 |
| Federal sources | 127,256 | 0 | 11,194 | 138,450 |
| Total revenues | 2,246,722 | 139,197 | 182,566 | 2,568,485 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 938,873 | 0 | 950 | 939,823 |
| Special instruction | 299,365 | 0 | 0 | 299,365 |
| Other instruction | 201,394 | 0 | 76,879 | 278,273 |
| | 1,439,632 | 0 | 77,829 | 1,517,461 |
| Support services: | | | | |
| Student services | 26,202 | 0 | 0 | 26,202 |
| Instructional staff services | 93,343 | 0 | 0 | 93,343 |
| Administration services | 309,392 | 0 | 16 | 309,408 |
| Operation and maintenance of plant services | 167,670 | 14,875 | 38,893 | 221,438 |
| Transportation services | 115,702 | 0 | 1,100 | 116,802 |
| | 712,309 | 14,875 | 40,009 | 767,193 |
| Other expenditures: | | | | |
| Facilities acquisitions | 0 | 11,168 | 30,292 | 41,460 |
| Long-term debt: | | | | |
| Principal | 0 | 0 | 12,792 | 12,792 |
| Interest | 0 | 0 | 384 | 384 |
| AEA flowthrough | 76,283 | 0 | 0 | 76,283 |
| | 76,283 | 11,168 | 43,468 | 130,919 |
| Total expenditures | 2,228,224 | 26,043 | 161,306 | 2,415,573 |
| Excess of revenues over expenditures | 18,498 | 113,154 | 21,260 | 152,912 |
| Other financing sources(uses): | | | | |
| Transfers in | 0 | 0 | 18,483 | 18,483 |
| Transfers out | 0 | (13,176) | 0 | (13,176) |
| Total other financing sources(uses) | 0 | (13,176) | 18,483 | 5,307 |
| Net change in fund balances | 18,498 | 99,978 | 39,743 | 158,219 |
| Fund balances beginning of year | 416,789 | 85,538 | 38,497 | 540,824 |
| Fund balances end of year | \$ 435,287 | 185,516 | 78,240 | 699,043 |

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 158,219

*Amounts reported for governmental activities in the
statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|----------------------|-----------|-----------|
| Capital outlays | \$ 80,150 | |
| Depreciation expense | (267,417) | (187,267) |

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

12,792

Changes in net assets of governmental activities (page 15)

\$ (16,256)

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

| | <u>School</u> <u>Nutrition</u> |
|--|-----------------------------------|
| Assets | |
| Cash and pooled investments | \$ 8,223 |
| Inventories | 1,342 |
| Capital assets, net of accumulated depreciation(Note 6) | <u>11,042</u> |
| Total assets | <u>20,607</u> |
| Liabilities | |
| Unearned revenue | <u>721</u> |
| Net Assets | |
| Investment in capital assets, net of related debt | 11,042 |
| Unrestricted | <u>8,844</u> |
| Total net assets | <u>\$ 19,886</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

| | <u>School</u> <u>Nutrition</u> |
|------------------------------|-----------------------------------|
| OPERATING REVENUE: | |
| Local sources: | |
| Charges for services | <u>\$ 35,860</u> |
| OPERATING EXPENSES: | |
| Non-instructional programs: | |
| Salaries | 35,888 |
| Benefits | 4,638 |
| Services | 3,316 |
| Supplies | 47,719 |
| Depreciation | 3,620 |
| TOTAL OPERATING EXPENSES | <u>95,181</u> |
| OPERATING LOSS | <u>(59,321)</u> |
| NON-OPERATING REVENUES: | |
| State sources | 1,478 |
| Federal sources | 52,987 |
| Interest on investments | 112 |
| TOTAL NON-OPERATING REVENUES | <u>54,577</u> |
| Net loss | (4,744) |
| Net assets beginning of year | <u>24,630</u> |
| Net assets end of year | <u><u>\$ 19,886</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit IMOULTON-UDELL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

| | <u>School Nutrition</u> |
|--|-----------------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 36,298 |
| Cash received from miscellaneous | 283 |
| Cash payments to employees for services | (40,526) |
| Cash payments to suppliers for goods or services | (44,947) |
| Net cash used in operating activities | <u>(48,892)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | 1,478 |
| Federal grants received | <u>49,007</u> |
| Net cash provided by non-capital financing activities | <u>50,485</u> |
| Cash flows from capital and related financing activities: | |
| Purchase of capital assets | <u>(1,101)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>112</u> |
| Net increase in cash and cash equivalents | 604 |
| Cash and cash equivalents at beginning of year | <u>7,619</u> |
| Cash and cash equivalents at end of year | <u>\$ 8,223</u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (59,321) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Commodities consumed | 3,980 |
| Depreciation | 3,620 |
| Decrease in inventories | 2,108 |
| Increase in unearned revenue | 721 |
| Net cash used in operating activities | <u>\$ (48,892)</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET: | |
| Current assets: | |
| Cash and pooled investments | <u>\$ 8,223</u> |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$3,980.

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2006

| | Private Purpose Trust Scholarship |
|---|---|
| Additions: | \$ 0 |
| Deductions: | 0 |
| Excess of revenue over expenditures | 0 |
| Other financing uses | |
| Transfers out | (5,307) |
| Deficiency of revenues under expenditures and other financing uses | (5,307) |
| Net assets beginning of year | 5,307 |
| Net assets end of year | \$ 0 |

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Moulton-Udell Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Moulton and Udell, Iowa, and the predominate agricultural territory in Appanoose and Davis Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Moulton-Udell Community School District has included all funds, organizations, Account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Moulton-Udell Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Appanoose and Davis Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require

income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's

principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds

had not been paid or received as of June 30, 2006 balances of interfund accounts receivable or payable have been recorded.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|---------------------------------|----------|
| Land | \$ 2,000 |
| Buildings | 10,000 |
| Land improvements | 10,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 2,500 |

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|-----------------------------------|
| Buildings | 50 years |
| Land improvements | 20-50 years |
| Machinery and equipment | 5-15 years |

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Diversified Portfolio

| Amortized Cost |
|-------------------|
| \$ 10,970 |

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

| Receivable Fund | Payable Fund | Amount |
|--|--|------------------|
| General | Special Revenue: Physical Plant and Equipment Levy | \$ 17,600 |
| General | Special Revenue: Management Levy | 26,500 |
| Special Revenue: Physical Plant and Equipment Levy | Capital Projects | 1,098 |
| General | Capital Projects | 2,196 |
| | | <u>\$ 47,394</u> |

The interfund receivable/payable between the General and the Special Revenue: Physical Plant and Equipment Levy and Management Levy are for loans between the funds which should have been paid in fiscal year 2006. Capital Projects owes the General and Special Revenue: Physical Plant and Equipment Levy for payments made on the capital lease obligation. These should be paid back in fiscal year 2007.

(4) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

| Transfer to | Transfer from | Amount |
|--------------------------------------|---------------------------------------|------------------|
| Debt Service | Capital Projects | \$ 13,176 |
| Special Revenue: Expendable Trust | Fiduciary: Non-expendable Trust | 5,307 |
| | | <u>\$ 18,483</u> |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating.

entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Investments | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|--------------|------------------------|-------------|-----------------------------|------------------|--------------------------|
| 2005-06B | 1/26/06 | 1/26/07 | \$ 157,548 | 3,193 | 157,000 | 2,768 |
| 2006-07A | 6/28/06 | 6/28/07 | 165,769 | 51 | 166,000 | 42 |
| Total | | | \$ 323,317 | 3,244 | 323,000 | 2,810 |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

| Series | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|---------------------------|-------------------|-----------------|---------------------|
| 2005-06A | \$ 0 | 100,000 | 100,000 | 0 |

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

| Series | Interest Rates on Warrants | Interest Rates on Investments |
|----------|----------------------------|-------------------------------|
| 2005-06A | 3.500% | 3.903% |
| 2005-06B | 4.500% | 4.772% |
| 2006-07A | 4.500% | 5.676% |

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,000 | 0 | 0 | 2,000 |
| Total capital assets not being depreciated | 2,000 | 0 | 0 | 2,000 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,490,000 | 1,397 | 0 | 1,491,397 |
| Land improvements | 0 | 12,100 | 0 | 12,100 |
| Machinery and equipment | 442,357 | 94,753 | 20,100 | 517,010 |
| Total capital assets being depreciated | 1,932,357 | 108,250 | 20,100 | 2,020,507 |
| Less accumulated depreciation for: | | | | |
| Buildings | 746,200 | 45,954 | 0 | 792,154 |
| Land improvements | 0 | 1,210 | 0 | 1,210 |
| Machinery and equipment | 232,051 | 236,903 | 8,650 | 460,304 |
| Total accumulated depreciation | 978,251 | 284,067 | 8,650 | 1,253,668 |
| Total capital assets being depreciated, net | 954,106 | (175,817) | 11,450 | 766,839 |
| Governmental activities capital assets, net | \$ 956,106 | (175,817) | 11,450 | 768,839 |
| Business-type activities: | | | | |
| Machinery and equipment | \$ 28,380 | 1,101 | 0 | 29,481 |
| Less accumulated depreciation | 14,819 | 3,620 | 0 | 18,439 |
| Business-type activities capital assets, net | \$ 13,561 | (2,519) | 0 | 11,042 |

Depreciation expense was charged by the District as follows:

| | |
|--|------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 171,660 |
| Other | 1,757 |
| Support services: | |
| Instructional staff | 8,572 |
| Administration | 19,744 |
| Operation and maintenance | 18,188 |
| Transportation | 16,982 |
| | 236,903 |
| Unallocated depreciation | 47,164 |
| Total governmental activities depreciation expense | \$ 284,067 |
| Business-type activities: | |
| Food services | \$ 3,620 |

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|-------------------------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| Capitalized lease obligations | \$ 26,649 | 0 | 12,792 | 13,857 | 12,792 |

Capitalized Lease Obligation

The District has entered into capital leases for the purchase of electronic equipment. The assets have been capitalized at cost. Future minimum lease payments for the capital lease commitment are as follows:

| Year Ending June 30, | Interest Rates | Principal | Interest | Total |
|----------------------------|-------------------|-----------|----------|--------|
| 2007 | 2.75 % | \$ 12,792 | 384 | 13,176 |
| 2008 | 2.75 | 1,065 | 32 | 1,097 |
| Total | | \$ 13,857 | 416 | 14,273 |

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$72,420, \$70,583, and \$72,662 respectively, equal to the required contributions for each year.

(9) Risk Management

Moulton-Udell Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: Medical, dental, vision and prescription drugs.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance

expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$215,428.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2006 no liability has been recorded in the District's financial statements. As of June 30, 2006 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Moulton-Udell Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$76,283 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

| | Governmental Funds Actual | Proprietary Funds Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|---------------------------------|--------------------------------|-----------------|------------------|-----------|--------------------------------|
| | | | | Original | Final | |
| Revenues: | | | | | | |
| Local sources | \$ 1,285,245 | 35,972 | 1,321,217 | 1,067,940 | 1,067,940 | 253,277 |
| State sources | 1,144,790 | 1,478 | 1,146,268 | 1,479,929 | 1,479,929 | (333,661) |
| Federal sources | 138,450 | 52,987 | 191,437 | 193,875 | 193,875 | (2,438) |
| Total revenues | 2,568,485 | 90,437 | 2,658,922 | 2,741,744 | 2,741,744 | (82,822) |
| Expenditures: | | | | | | |
| Instruction | 1,517,461 | 0 | 1,517,461 | 1,700,400 | 1,700,400 | 182,939 |
| Support services | 767,193 | 0 | 767,193 | 813,000 | 813,000 | 45,807 |
| Non-instructional programs | 0 | 95,181 | 95,181 | 90,000 | 99,000 | 3,819 |
| Other expenditures | 130,919 | 0 | 130,919 | 660,180 | 660,180 | 529,261 |
| Total expenditures | 2,415,573 | 95,181 | 2,510,754 | 3,263,580 | 3,272,580 | 761,826 |
| Excess(deficiency) of revenues over(under) expenditures | 152,912 | (4,744) | 148,168 | (521,836) | (530,836) | (679,004) |
| Other financing sources, net | 5,307 | 0 | 5,307 | 875,000 | 875,000 | 869,693 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures | 158,219 | (4,744) | 153,475 | 353,164 | 344,164 | 190,689 |
| Balances beginning of year | 540,824 | 24,630 | 565,454 | 482,368 | 482,368 | 83,086 |
| Balances end of year | \$ 699,043 | 19,886 | 718,929 | 835,532 | 826,532 | (107,603) |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$9,000.

OTHER SUPPLEMENTAL INFORMATION

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

| | Special Revenue Funds | | | | |
|--|-------------------------|---------------------|--|---------------------|----------------|
| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Expendable Trust | Total |
| Assets | | | | | |
| Cash and pooled investments | \$ 33,129 | 58,810 | 16,851 | 8,427 | 117,217 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Current year delinquent | 1,364 | 0 | 784 | 0 | 2,148 |
| Succeeding year | 45,000 | 0 | 46,134 | 0 | 91,134 |
| Interfund | 0 | 0 | 1,098 | 0 | 1,098 |
| Accounts | 0 | 40 | 0 | 0 | 40 |
| Due from other governments | 0 | 90 | 1,894 | 0 | 1,984 |
| Total Assets | \$ 79,493 | 58,940 | 66,761 | 8,427 | 213,621 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Interfund payable | \$ 26,500 | 0 | 17,600 | 0 | 44,100 |
| Accounts payable | 0 | 147 | 0 | 0 | 147 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 45,000 | 0 | 46,134 | 0 | 91,134 |
| Total liabilities | 71,500 | 147 | 63,734 | 0 | 135,381 |
| Fund Balances: | | | | | |
| Unreserved fund balances | 7,993 | 58,793 | 3,027 | 8,427 | 78,240 |
| Total liabilities and fund balances | \$ 79,493 | 58,940 | 66,761 | 8,427 | 213,621 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

| | Special Revenue Funds | | | | | | Total Nonmajor Governmental Funds |
|---|-------------------------|---------------------|--|---------------------|-----------------------------|-----------------|--|
| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Expendable Trust | Total Special Revenue | Debt Service | |
| REVENUES: | | | | | | | |
| Local sources: | | | | | | | |
| Local tax | \$ 39,295 | 0 | 22,606 | 0 | 61,901 | 0 | 61,901 |
| Other | 2,663 | 84,888 | 17,781 | 4,070 | 109,402 | 0 | 109,402 |
| State sources | 44 | 0 | 25 | 0 | 69 | 0 | 69 |
| Federal sources | 0 | 0 | 11,194 | 0 | 11,194 | 0 | 11,194 |
| TOTAL REVENUES | 42,002 | 84,888 | 51,606 | 4,070 | 182,566 | 0 | 182,566 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| Instruction: | | | | | | | |
| Regular instruction | 0 | 0 | 0 | 950 | 950 | 0 | 950 |
| Other instruction | 0 | 76,879 | 0 | 0 | 76,879 | 0 | 76,879 |
| Support services: | | | | | | | |
| Administration services | 16 | 0 | 0 | 0 | 16 | 0 | 16 |
| Operation and maintenance of plant services | 38,893 | 0 | 0 | 0 | 38,893 | 0 | 38,893 |
| Student transportation | 0 | 0 | 1,100 | 0 | 1,100 | 0 | 1,100 |
| Other expenditures: | | | | | | | |
| Facilities acquisitions | 0 | 0 | 30,292 | 0 | 30,292 | 0 | 30,292 |
| Long-term debt: | | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 0 | 12,792 | 12,792 |
| Interest | 0 | 0 | 0 | 0 | 0 | 384 | 384 |
| TOTAL EXPENDITURES | 38,909 | 76,879 | 31,392 | 950 | 148,130 | 13,176 | 161,306 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 3,093 | 8,009 | 20,214 | 3,120 | 34,436 | (13,176) | 21,260 |
| OTHER FINANCING SOURCES: | | | | | | | |
| Transfer in | 0 | 0 | 0 | 5,307 | 5,307 | 13,176 | 18,483 |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | 3,093 | 8,009 | 20,214 | 8,427 | 39,743 | 0 | 39,743 |
| FUND BALANCES BEGINNING OF YEAR | 4,900 | 50,784 | (17,187) | 0 | 38,497 | 0 | 38,497 |
| FUND BALANCES END OF YEAR | \$ 7,993 | 58,793 | 3,027 | 8,427 | 78,240 | 0 | 78,240 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|--------------------|---------------------------------|----------|-------------------|---------------------------|
| SADD | \$ 2,822 | 5,037 | 4,155 | 3,704 |
| Honor Society | 551 | 1,063 | 1,015 | 599 |
| Annual | 11,240 | 4,190 | 1 | 15,429 |
| General Athletics | 10,705 | 7,886 | 6,853 | 11,738 |
| Girls Athletics | 0 | 9,367 | 9,190 | 177 |
| Cheerleaders | 969 | 922 | 901 | 990 |
| Drama | 343 | 698 | 27 | 1,014 |
| Student Council | 3,168 | 13,734 | 13,872 | 3,030 |
| FFA | 11,721 | 10,189 | 13,187 | 8,723 |
| FFA-IDA Project | 0 | 600 | 0 | 600 |
| Class of 2002 | 102 | 0 | 0 | 102 |
| Class of 2003 | (70) | 70 | 0 | 0 |
| Class of 2004 | 100 | 0 | 0 | 100 |
| Class of 2005 | 497 | 297 | 794 | 0 |
| Class of 2006 | 5,265 | 8,964 | 14,222 | 7 |
| Class of 2007 | 163 | 11,513 | 7,766 | 3,910 |
| Class of 2008 | 127 | 1,146 | 371 | 902 |
| Class of 2009 | (57) | 134 | 0 | 77 |
| Class of 2010 | 50 | 327 | 346 | 31 |
| Class of 2011 | 0 | 15 | 0 | 15 |
| Class of 2012 | 127 | 432 | 431 | 128 |
| Class of 2013 | 19 | 446 | 396 | 69 |
| Class of 2014 | (14) | 109 | 95 | 0 |
| Class of 2015 | 402 | 33 | 133 | 302 |
| Class of 2016 | (135) | 453 | 318 | 0 |
| Class of 2017 | 0 | 173 | 173 | 0 |
| Class of 2018 | 0 | 113 | 113 | 0 |
| Art Club | 366 | 0 | 0 | 366 |
| Spanish Club | 33 | 0 | 0 | 33 |
| Flag Corps | (209) | 209 | 0 | 0 |
| Interest | 293 | 0 | 293 | 0 |
| Musicals | 1,174 | 450 | 483 | 1,141 |
| Popcorn Machine | (898) | 898 | 0 | 0 |
| Elementary | 1,472 | 4,160 | 1,178 | 4,454 |
| High School | 28 | 965 | 27 | 966 |
| Instrumental Music | 381 | 84 | 368 | 97 |
| Speech | 49 | 211 | 171 | 89 |
| Total | \$ 50,784 | 84,888 | 76,879 | 58,793 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

| Modified Accrual Basis | | | | |
|---|---------------------|------------------|------------------|------------------|
| Years Ended June 30, | | | | |
| | 2006 | 2005 | 2004 | 2003 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 927,334 | 825,227 | 749,900 | 721,875 |
| Tuition | 205,102 | 128,700 | 150,002 | 147,207 |
| Other | 152,809 | 143,741 | 158,109 | 123,250 |
| State sources | 1,144,790 | 1,267,292 | 1,179,818 | 1,288,397 |
| Federal sources | 138,450 | 134,128 | 155,327 | 129,829 |
| Total | <u>\$ 2,568,485</u> | <u>2,499,088</u> | <u>2,393,156</u> | <u>2,410,558</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 939,823 | 889,344 | 1,018,301 | 1,000,615 |
| Special instruction | 299,365 | 320,155 | 333,913 | 299,717 |
| Other instruction | 278,273 | 340,440 | 285,497 | 260,885 |
| Support services: | | | | |
| Student services | 26,202 | 30,054 | 26,559 | 6,776 |
| Instructional staff services | 93,343 | 50,997 | 8,888 | 39,021 |
| Administration services | 309,408 | 286,564 | 302,959 | 264,004 |
| Operation and maintenance of plant services | 221,438 | 171,432 | 211,273 | 176,317 |
| Transportation services | 116,802 | 113,475 | 105,441 | 132,985 |
| Non-instructional programs | 0 | 260 | 225 | 261 |
| Other expenditures: | | | | |
| Facilities acquisitions | 41,460 | 21,614 | 0 | 91,889 |
| Long-term debt: | | | | |
| Principal | 12,792 | 24,740 | 46,175 | 156,772 |
| Interest | 384 | 1,486 | 2,120 | 10,589 |
| AEA flow-through | 76,283 | 77,230 | 77,390 | 83,845 |
| Total | <u>\$ 2,415,573</u> | <u>2,327,791</u> | <u>2,418,741</u> | <u>2,523,676</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Moulton-Udell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Moulton-Udell Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

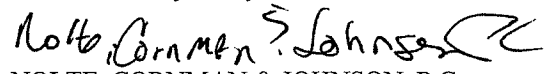
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Moulton-Udell Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Moulton-Udell Community School District and other parties to whom Moulton-Udell Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Moulton-Udell Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 3, 2006

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review our control procedures to maximize our internal control given our circumstances.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund - We noted during our audit that the Student Activity fund included old class accounts.

Recommendation - The class accounts, where the students have already graduated, should be closed out to another student activity account.

Response - We have closed old activity funds and will do this on an annual basis.

Conclusion - Response accepted.

- I-C-06 Capital Asset Policy - We noted during our audit that the District had not implemented a capital asset policy that states the capitalization thresholds to be used for the accounting of the capital assets.

Recommendation - The District should review the policies in place and update the necessary capital asset policies.

Response - The District has adopted Capital Asset Policies modeled on Iowa Association School Board Policy.

Conclusion - Response accepted.

- I-D-06 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - Project numbers from the Uniform Financial Accounting Manual has always been used and we will review coding procedures.

Conclusion - Response accepted.

- I-E-06 Check Signatures - We noted during our audit, an instance of one signature on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - The District will ensure that the proper signatures are on all checks prior to sending them out.

Conclusion - Response accepted.

- I-F-06 Purchase Orders - We noted that in the General Fund some purchase orders appear to be completed after purchases are made.

Recommendation - The purchase order system allows for the District to monitor expenses which have already been obligated and therefore providing information as to what is yet available. By approving purchase orders after ordering is completed, the District is more likely to exceed budgeted amounts. The District should review procedures in place and make necessary changes to ensure purchase orders are completed prior to purchasing.

Response - The District has reviewed procedures and the necessary changes have been made to ensure purchase orders are completed prior to items being purchased.

Conclusion - Response accepted.

- I-G-06 Supporting Documentation - We noted during our audit, instances of no supporting documentation to go with the cancelled check stubs and purchase orders.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or requiring support document other than an invoice.

Response - The District has adopted procedures to implement when an invoice is not available.

Conclusion - Response accepted.

- I-H-06 Deposits Slips - We noted during our audit instances of deposit slips which lacked detail support for what was deposited into the bank.

Recommendation - The District should improve the detail on the deposit slips to show which receipts make up the deposits.

Response - The District shall note on all deposit slips what receipts make up that deposit slip total.

Conclusion - Response accepted.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. However we did note some meal reimbursements to employees that lacked receipts for support documentation.

Recommendation - The District should review its procedures to ensure that all claims for reimbursement are accompanied by a detailed receipt of what was purchased and the public purpose for the reimbursement.

Response - The District will ensure that all claims for reimbursements are accompanied by a detailed receipt of what was purchased and the public purpose for the reimbursement.

Conclusion - Response accepted.

- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are noted as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|----------------------------|---------|
| Rodger Kaster, Board Member Spouse owns Country Lane Graphics | Supplies | \$1,393 |

In accordance with Attorney's General Opinion dated November 9, 1976, the above transaction with the Board Member's spouse doesn't appear to present a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner. We also noted that not all of the board minutes were properly signed by the Board Secretary and/or Board President.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa. Board minutes should also be signed in a timely manner.

Response - The District will see that this is done.

Conclusion - Response accepted.

II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-06 Corrective Transfers - We noted during our audit revenues/expenses that were receipted/expensed out of the Special Revenue: Student Activity and Expendable Trust Funds that should have been run through the General Fund.

Recommendation - The District should transfer \$2,891.65 from the Special Revenue: Student Activity Fund to the General Fund for instructional donations received in the amount of \$3,886.80 and playground equipment purchased in the amount of \$995.15. The Special Revenue: Expendable Trust Fund should transfer \$1,978.50 to the General Fund for donations received that are to be used for instructional supplies.

Response - The District will insure the transfers are completed.

Conclusion - Response accepted.

II-K-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District began obtaining and retaining an image of both the front and back of each cancelled check beginning March of 2006. This has been added to the policy and procedure list.

Conclusion - Response accepted.